GSA Public Buildings Service

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RSL-2008-03

MEMORANDUM TO ASSISTANT REGIONAL ADMINISTRATORS, PBS
REGIONAL PORTFOLIO DIRECTORS
REGIONAL REALTY SERVICES OFFICERS

FROM: CATHY KRONOPOLUS
ASSISTANT COMMISSIONER FOR
REAL PROPERTY ASSET MANAGEMENT – PV

for SAMUEL J. MORRIS III
ASSISTANT COMMISSIONER FOR OFFICE OF
REAL ESTATE ACQUISITION – PR

SUBJECT: Revised Policy on the Determination of Operating or Capital Lease Classification for Budget Scorekeeping Purposes

1. Purpose. This Realty Services Letter (RSL) transmits revised policies on determining whether to classify a lease as an operating lease or a capital lease for budget scorekeeping purposes.

2. Backaround.

   a. On October 30, 2006, Assistant Commissioners William H. Matthews and Christopher Reutershan jointly issued RSL 2006-08, Determination of Operating Leases and Lease Scoring, to address budget scorekeeping as required by Office of Management and Budget Circular No. A-I1, Appendix B.

   b. This revised RSL replaces the guidance and accompanying form provided under RSL 2006-08.

3. Effective Date/Expiration Date. This RSL is effective immediately and will expire 5 years from the date of issuance unless modified, cancelled, or reissued.

4. Cancellation. RSL 2006-08, Determination of Operating Leases and Lease Scoring, is canceled.

5. Applicability. This RSL applies to all real property leasing activities.

6. Instructions/Procedures. See Attachment I.

**U.S. General Services Administration**
1800 F street, NW
**Washington. DC** 20405-0002
**www.gsa.gov**

Attachments:

1. Determination of Operating or Capital Lease Classification for Budget Scorekeeping Purposes

2. Lease Scorekeeping Classification Summary Matrix

3. Lease Scorekeeping Classification Workbook

4. Determination of Operating Lease Classification for Lease Extension

# Determination of Operating or Capital Lease Classification for Budget Scorekeeping Purposes

1. General.

   a. This policy, jointly issued by the Assistant Commissioners for Real Property Asset Management and Real Estate Acquisition, provides mandatory instructions for determining appropriate budget scorekeeping treatment, either as an operating or capital lease for every real property lease transaction, as required by Office of Management and Budget (OMB) Circular No. A-11, Appendix B. Regional Offices of Portfolio Management in coordination with the realty contracting officer must undertake all lease scoring evaluations and determine whether a lease should be treated as an operating lease (annual operating expense) or capital asset lease (capital acquisition) for budget scorekeeping purposes.

   b. GSA must differentiate between operating and capital leases for purposes of budget scorekeeping in accordance with the Budget Enforcement Act of 1990 (Title XIII of the Omnibus Reconciliation Act of 1990), known as the BEA. The budgetary and accounting consequences of entering into a capital lease are serious. If a lease is a capital lease, GSA must allocate budget authority in the initial year of the lease that equals the present value of the triple net lease payments over the full term of the lease plus the cost of the associated annual real estate taxes.

c. This policy applies to all new, succeeding and superseding leases, and lease expansions and extensions.

   Note: A line in the right margin indicates a policy or procedure that is substantively revised.

2. Background.

   a. The BEA, as revised by the Balanced Budget Act of 1997, provides for assigning budget authority.

   b. OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, is issued annually. Its Appendix A, *Scorekeeping Guidelines*, and Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*, provide instructions for scoring lease transactions.

   c. OMB Circular No. A-94, Appendix C, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, is updated annually with the President's budget submission to Congress and provides the discount rates to be used in all "90 percent" scoring calculations for the year.

   d. On March 31, 2006, the GSA Inspector General reported that lease scoring was not being performed in accordance with prescribed policy and concluded, "It is imperative that PBS associates adhere to all scoring guidelines and appropriately test all scoring scenarios." [1]

[1] Audit of PBS's Tenant Improvement Process (GSA Inspector General, Report Number A050063/P/R/R06005, March 31, 2006).

3. Explanation of Changes. EVERY lease action must be evaluated against the criteria detailed in OMB Circular No. A-11, Appendix B to determine whether it should be classified as an operating or capital lease. Under certain scenarios, we can presume that if a leasing transaction satisfies the criteria i-viii listed under paragraph 4d, it can be classified as an operating lease and that the "90 percent" scoring calculation is not required to make that determination.[2] The revised policy addresses the lease scenarios and project milestones where such an assumption may be made. This policy is dependent on lease scenarios and project milestones as detailed in the guidance below and summarized in the matrix attached.

4. Instructions/Procedures.

   a. For ALL lease actions, designated employees in each regional Office of Portfolio Management in coordination with the realty contracting officer, must make the determination that a lease is either an operating or capital lease and undertake all scoring evaluations. For the purposes of this policy, a designated employee is the Regional Director of Portfolio Management or designee.

   b. Use of Lease Scorekeeping Classification Workbook. The designated Portfolio Management employee and realty contracting officer must use the attached *Lease Scorekeeping Classification Workbook* to provide a determination of operating or capital lease treatment for each proposed lease action. The Workbook outlines the procedures for making such determination. Completion of the Workbook must be incorporated into the project schedule. A final determination of Operating or Capital Lease classification (part 2a of the Lease Scorekeeping Classification Workbook) must be completed and returned to the realty specialist no later than 3 days from the date of request for those lease transactions below the statutory prospectus level, and no later than 15 days from the date of request for those lease transactions that will meet or exceed the statutory prospectus level.

   c. Use of Circular No. A-11. The Regional Director of Portfolio Management or designated employee must follow the current OMB guidelines in Circular No. A-11, Appendices A and B, and use the current OMB discount rates provided in Circular No. A-94 Appendix C when making the determination of lease treatment for budget scorekeeping purposes. The most current version of Circular No. A-11, Appendices A and B and Circular No. A-94, Appendix C can found at http://www.whitehouse.gov/omb/circulars/a11/current_year/a11_toc.html and http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html

   d. Operating Lease Criteria. Appendix B of Circular No. A-11 lists multiple criteria that a lease must meet in order to be considered an operating lease. If any one of these criteria is not met, the lease will risk being scored as a capital lease. EVERY leasing transaction must be evaluated against these criteria to

[2] To determine continued operating lease status for lease extensions, the realty contracting officer must complete and sign a Determination of Operating Lease Classification for Lease Extension Memorandum (Attachment 4). A copy of the signed memorandum must be included in the lease file.

distinguish capital leases from operating leases. (See paragraphs 6 and 7 for expedited evaluation scenarios.) If Circular No. A-11 is updated or modified, the leasing transaction must be evaluated using the most recent criteria and guidelines. The criteria to be applied are as follows:

i. Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at, or shortly after, the end of the lease period.
ii. The lease does not contain a bargain-price purchase option.
iii. The lease term does not exceed 75 percent of the estimated economic life of the asset.
iv. The asset is a general-purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government as lessee.
v. There is a private sector market for the asset.
vi. The project should not be constructed on Government land.[3]
vii. There should be no provision of Government financing and no explicit Government guarantee of third party financing.
viii. Risks of ownership of the asset should remain with the lessor unless the Government was at fault for such losses.
ix. The present value of the minimum lease payments over the life of the lease does not exceed "90 percent "of the fair market value (FMV) of the asset at the inception of the lease.

e. The "90 Percent" Criterion. Among the criteria to determine an operating lease in Circular No. A-11 is that the "present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease." To determine whether the 90 percent threshold has been reached or exceeded, the designated Portfolio Management employee must conduct a "90 percent" scoring calculation, using the Scoring Evaluation Spreadsheet available in eLease or on the Office of Real Property Asset Management InSite Web page. While all lease transactions are required to be evaluated against the above operating lease criteria, in certain scenarios (as detailed in paragraphs 6 and 7), where the likelihood of the lease scoring as a capital lease is remote, and the realty contracting officer and designated Portfolio Management employee provide sufficient facts about the specific lease transaction to reasonably conclude that it will not score as a capital lease, the "90 percent" scoring calculation is not required to make such a determination.

[3] All arrangements entered into using the authorities granted under Section 412 Public Law 108-447, 118 Stat. 2809, 3259 and 40 USC 585(c) must be reviewed by GSA Office of General Counsel and the Office of Management and Budget.

5. "90 Percent" Scoring Calculation Required. In addition to evaluating the proposed lease action against the operating lease criteria defined above (i-viii), the "90 percent" scoring calculation is required for new, succeeding, and superseding lease projects under the following scenarios:
   a. Planned Lease Construction
      i. Regardless of the size of the requirement or the proposed term, the designated Portfolio Management employee must perform a "90 percent" scoring calculation for all planned lease construction leases at the planning phase of the project (requirements development) and perform a reanalysis on the apparent successful offer. While it is not required, it is prudent to perform the "90 percent" scoring calculation on the top two offers.
      ii. Each "90 percent" scoring calculation for a planned lease construction proposal must include a documented and defensible value for site acquisition in the estimate of FMV.
   b. Leases Below the Statutory Prospectus Level with a lease term of greater than 5 years and an RSF of 10,000 or less.
      i. A "90 percent" scoring calculation is required for all leases below the statutory prospectus level that have a term of greater than 5 years and a square footage requirement of 10,000 rsf or less. The calculation must be performed on the apparent successful offer. If a site value is not readily available,[4] the site value can be assumed to be ZERO. In such cases, it should be noted that the FMV figure is based on the total Estimated Construction Cost (ECC) plus the costs of design and management and inspection and a zero cost for site.
   c. Leases Below or Above the Statutory Prospectus Level with a lease term of greater than 5 Years and an RSF greater than 10,000.
      i. A "90 percent" scoring calculation is required for all leases below or above the statutory prospectus level that have a term of greater than 5 years and a square footage requirement greater than 10,000 rsf. For leases below the statutory prospectus level, the "90 percent" scoring calculation must be performed at the planning phase of the project (requirements development) and on the apparent successful offer. For leases above the statutory prospectus level, the "90 percent" scoring calculation must be performed at the planning phase of the project (requirements development), at the time of the submittal of the prospectus package to Central Office, and then once more on the apparent successful offer prior to lease award.
      ii. Each "90 percent" scoring calculation for leases below or above the statutory prospectus level with a term of greater than 5 years and an RSF of

[4] Where a site value is not readily available, the use of a zero value for site generates the most conservative estimate for Fair Market Value. If, while using a zero value for site, the FMV generated results in an operating lease, any value added for site would only serve to solidify the operating lease status. The FMV can be entered into the scoring model as is. If the project scores as a capital lease when using a zero value for site in the FMV calculation, a defensible value for site should be entered and the FMV calculation repeated.

greater than 10,000 must include a documented and defensible value for site acquisition in the estimate of FMV.

6. <u>"90 Percent" Scoring Calculation Not Required</u>. If a lease, regardless of square footage or if it is below or above the statutory prospectus level, has a term of 5 years or less, and the designated Portfolio Management employee has ascertained sufficient facts about the lease transaction (including satisfaction of the criteria in paragraph 4d. i-viii), it can be concluded that the lease will not score as a capital lease and that the "90 percent" scoring calculation is NOT required to make such a determination as long as the rental rates are consistent with prevailing market rates for comparable facilities in the community in which the leasing action is to occur. The Lease Scorekeeping Classification Workbook must still be completed to document that the proposed action satisfies the criteria in paragraph 4d. i-viii.

7. <u>Other Leasing Actions</u>. When dealing with special leasing actions such as extensions, expansions, and free space, the following guidelines must be observed:

   a. <u>Extensions</u>. If the Government seeks to extend a lease for a temporary term (less than 3 years), the realty specialist must confirm continued operating lease status for the proposed extension. To confirm operating lease status, the short-term extension must satisfy the following criteria: the base lease being extended already underwent a full Lease Scoring evaluation (in accordance with criteria set forth in Appendix B of OMB Circular No. A-11) and scored as an operating lease, with the lease file containing all required scoring evaluation documentation; the term of the lease extension does not exceed 3 years; the annual rent of the lease extension term either remains unchanged or decreases; all terms of the base lease remain unchanged, and no additional terms are included, either in a prior SLA or as part of the lease extension, that would become applicable during the term of the lease extension and would cause the lease to score as a capital lease; and the rent to be paid under the extension is below the statutory prospectus threshold applicable at the effective date of the extension. If all the above criteria are met, the Realty Contracting Officer shall complete and sign a copy of the Determination of Operating Lease Classification for Lease Extensions Memorandum, and include a copy in the lease file. No further action with regards to lease classification for budget scorekeeping purposes is required.

   b. <u>Expansions</u>. If expansion space is requested for a location already under lease to the Government, the entire square footage (total existing plus total expansion) must be analyzed as a whole in accordance with the scoring criteria set forth herein. This analysis must occur prior to the acceptance of any expansion space to determine that operating lease status is maintained when factoring in the expansion space. Caution should be exercised so that the expansion space does not affect the below statutory prospectus level status of a lease or exceed the available authority for an existing statutory prospectus level lease.

   c. <u>Free Space</u>. When an offer proposes to provide, at no charge to the Government, a contiguous block of space that exceeds the maximum amount for which GSA has solicited, at no additional charge to the Government, and the agency agrees to accept the extra space, the free space square footage is not added to the solicited square footage of the lease for "90 percent" scoring calculation purposes.

d. Options. Lease options must be addressed as follows:

   i. If a lease agreement contains an option to renew that can be exercised without additional legislative authority, it is presumed that the option will be exercised. If, for example, a prospectus authorizes a term of 20 years and the proposed lease deal is structured as 10 years firm with two 5-year options, the "90 percent" scoring calculation must reflect a 20-year lease term. If, however, a lease prospectus is authorized for a term of 10 years, but the lessor offers a 10-year firm lease with two 5-year options, the "90 percent" scoring calculation only needs to reflect a 10-year lease term. The two 5-year options cannot be exercised without additional legislative authorization and therefore do not need to be calculated at the time of the analysis. All options that are included in the lease agreement for leases below the statutory prospectus level that do not require prospectus authority to exercise must be included in the lease term for the "90 percent" scoring calculation. If such an option(s) is not factored into the base lease's original "90 percent" scoring calculation, the scoring requirements as defined in this RSL must be applied before the option(s) is exercised.

8. Scoring Calculation Results above 80 percent. Calculation results above 80 percent are sufficiently high to be cause for concern and must have the signed concurrence of the Regional Director of Portfolio Management. This concurrence must not be delegated.

9. Determination of Operating or Capital Lease Classification Request. The lease contracting officer or designated realty specialist must use the attached *eLease Lease Scorekeeping Classification Workbook* and sign it. The Regional Director of Portfolio Management or designee must also sign the document. The signed document, with the determination of operating or capital treatment, along with all backup documentation ["90 percent" scoring calculation worksheet, General Construction Cost Review Guide (GCCRG) lookup table, and site value calculation], must be kept in the official lease file with a scanned copy uploaded into eLease by the realty contracting officer or designated realty specialist.

10. Calculations. Instructions for the "90 percent" scoring calculation are provided by the Office of Real Property Asset Management on the following Web site:

    http://pbsportal.pbs.gsa.gov:7777/portal/page?_pageid=84,120677&_dad=portal&_schema=PORTAL.

    a. For all "90 percent" scoring calculations, the designated Portfolio Management employee must develop inputs for the scoring worksheet using the most current GCCRG or data taken from a current market appraisal (if available). If using the GCCRG, the employee must enter the total project ECC into the most current Look-Up Table +20 percent to determine the design and management and inspection fees applicable to the proposed action. To determine FMV, the designated Portfolio Management employee must add the total ECC to the design and management and inspection costs, and to the site acquisition costs (zero where allowed). The value for land should be provided by the employee(s) responsible according to regional policy/practice and can be determined through site comparables based on recent sales; market values if developed for the geographic area based on land values per Floor Area Ratio (FAR) foot; or any other suitable method as long as sufficient documentation is provided.

b. Every time the Portfolio Management employee performs a “90 percent” scoring calculation, they must use the discount and inflation rates that are included in the most recent President’s budget document. These rates are posted on the Portfolio Management Web site shortly after the President’s budget is released. These are normally updated in February-March each year. Rates for 2007, which are based on the economic assumptions for the 2008 budget, can be found at http://pbsportal.pbs.gsa.gov:7777/portal/page?_pageid=84,119730&_dad=portal&_schema=PORTAL

11. Notification of Capital Lease. For any proposed leasing action that is determined to be a capital lease transaction, and for which no feasible alternative appears to exist, the following PBS officers must be notified prior to any action be taken:

   i. Regional Director of Portfolio Management
   ii. Regional Realty Services Officer, or other individual responsible for leasing activities as identified by the ARA;
   iii. Assistant Commissioner for Real Property Asset Management;
   iv. Assistant Commissioner of the Office of Budget and Financial Management; and
   v. Assistant Commissioner for Office of Real Estate Acquisition.

# Lease Scorekeeping Classification Workbook

## Lease Scorekeeping Classification Workbook

In accordance with the revised guidance issued under RSL 2008-03, Determination of Operating or Capital Lease Classification for Budget Scorekeeping Purposes, **EVERY *** lease action must be evaluated against the following criteria as found in OMB Circular No. A-11, Appendix B. (* For lease extensions, a Determination of Operating Lease Classification for Lease Extension Memorandum must be completed by the realty contracting officer.)

i. Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period.
ii. The lease does not contain a bargain-price purchase option
iii. The lease does not exceed 75 percent of the estimated economic life of the asset.
iv. The asset is a general-purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government as lessee.
v. There is a private sector market for the asset.
vi. The project should not be constructed on Government-owned land **
vii. There should be no provision of Government financing and no explicit Government guarantee of third party financing.
viii. Risk of ownership of the asset should remain with the lessor unless the Government was at fault for such losses.

** Arrangements entered into using the authorities granted under Section 412 Public Law 108-447, 118 Stat 2809, 3259 & 40 USC 585c must be reviewed by the GSA Office of General Counsel and the Office of Management and Budget.

A **"90 percent" scoring calculation** is **also** required under those lease scenarios and project phases as noted (☑). A value for site must be used in the fair market value (FMV) calculation where indicated. Where noted, a zero value can be used in the calculation.

The **"90 percent " scoring calculation** is the calculation to determine

ix. The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market of the asset at the inception of the lease

| | PROJECT PHASE | | | |
|---|---|---|---|---|
| **LEASE SCENARIOS** | **Requirement Development Phase** | **Prospectus Submittal to CO** | **Apparent Successful Offer** | **Value for Site Required ***** |
| **Planned Lease Construction**<br>**Term - any**<br>**RSF - any** | ☑ Evaluate against criteria i-ix | ☑ Evaluate against criteria i-ix **** | ☑ Evaluate against criteria i-ix | ☑ |
| **Below Prospectus Lease**<br>**Term > 5 years**<br>**RSF < 10,000** | Evaluate against criteria i-viii | N/A | ☑ Evaluate against criteria i-ix | Use Zero if value not readily available |
| **Below Prospectus Lease**<br>**Term > 5 years**<br>**RSF > 10,000** | ☑ Evaluate against criteria i-ix | N/A | ☑ Evaluate against criteria i-ix | ☑ |
| **Below Prospectus Lease**<br>**Term < 5 years**<br>**RSF > 0** | Evaluate against criteria i-viii | N/A | Evaluate against criteria i-viii | N/A |
| **Prospectus Level Lease**<br>**Term < 5 years**<br>**RSF > 0** | Evaluate against criteria i-viii | Evaluate against criteria i-viii | Evaluate against criteria i-viii | N/A |
| **Prospectus Level Lease**<br>**Term > 5 years**<br>**RSF > 10,000** | ☑ Evaluate against criteria i-ix | ☑ Evaluate against criteria i-ix | ☑ Evaluate against criteria i-ix | ☑ |

*** Must include a documented and justifiable value for site.
**** Required if Planned Lease Construction is above the statutory prospectus level.

# Instructions

## How to Use this Workbook

### Part 1 - Requirements Development

This worksheet should be completed by the Realty Specialist at the Requirements Development Phase and should be submitted to the Office of Portfolio Management.

### Part 1a - Preliminary Determination

This worksheet should be completed by the designated Portfolio Management employee upon receipt of Part 1 and returned to the Realty Specialist.

### Part 2 - Offer Details

This worksheet should be completed by the Realty Specialist in accordance with the scoring guidance contained in the 2008 Scoring RSL and should be submitted to the Office of Portfolio Management.

### Part 2a - Final Determination

This worksheet should be completed by the designated Portfolio Management employee upon receipt of Part 2 and returned to the Realty Specialist within 3 days for leases below the statutory prospectus level and 15 days for leases above the statutory prospectus level.

### Levelized Rent Worksheet

If the lease agreement calls for escalation of the base rent, a levelized rent must be calculated and inputted into the scoring analysis worksheet.  This worksheet should be completed by the Realty Specialist and reviewed by designated Portfolio Management employee.

### GCCRG

### Look Up Table + 20%

### "90 Percent" Scoring Calculation

Each tab provides a link to the respective worksheet.

These worksheets should be completed by the qualified employee in the regional Office of Portfolio Management in accordance with the scoring guidance contained in the 2008 Scoring RSL and should be returned to the Realty Specialist for inclusion in the official lease file and eLease.

# Lease Scorekeeping Classification Workbook

(This form, signed by the Realty Specialist and Director of Portfolio Management or designee, is required for **EVERY** GSA lease. The realty specialist must keep the original and all supporting documents in the lease file, and upload a scanned copy into e-Lease. Unless otherwise provided by agency directive, this document must only be used for internal, deliberative purposes, and must not be released outside GSA without the prior consent of the National Office of Real Property Asset Management and the Office of General Counsel.)

## PART 1 - REQUIREMENTS DEVELOPMENT

This sheet must be completed by Realty Specialist at the Requirements Development Phase and be submitted to the designated Portfolio Management employee for review.

| | | | | | |
|---|---|---|---|---|---|
| **Realty Specialist** | | **Phone** | | **Email** | |
| **Portfolio Associate** | | **Phone** | | **Email** | |
| **Date** | | **STAR Project Number** | | **Lease Action** | |
| **Client Agency (s)** | | | | ☐ New ☐ Replacing ☐ Succeeding | ☐ Superseding ☐ Modification (SLA) |
| | | Is the lease expected to be a Prospectus level lease? | | ☐ Yes | |
| Total USF Proposed | | (FY08 net rent does not exceed $2,590,000)* | | ☐ No | |
| Total RSF Proposed | years | Anticipated Annual Net Rent | | $ - | |
| Full Term Proposed | years | Will the lease be met via a Planned Lease Construction? | | ☐ Yes | ☐ No |

| **Breakdown of Space** | **Usable SF** | **Rentable SF** |
|---|---|---|
| General Office (80% open) | | |
| General Office (50% open) | | |
| General Office (20% open) | | |
| Enhanced Office (Courthouse only) | | |
| General Storage | | |
| Laboratory (dry) | | |
| Laboratory (wet) | | |
| Holding Cell/Detention | | |
| Private Toilets | | |
| Clinic/Health Units | | |
| Physical Fitness | | |
| Child Care | | |
| Conference/Classroom | | |
| Auditorium | | |
| Library | | |
| ADP (mainframe) | | |
| ADP (high PC) | | |
| Firing Range | | |
| Courtroom (Courthouse only) | | |
| Judicial Hearing | | |
| Judicial Chambers (Courthouse only) | | |
| Light Industrial | | |
| Warehouse (Utility Building only) | | |
| Joint Use, Retail | | |
| Food Service/Cafeteria | | |
| Other | | |
| Other | | |
| Other | | |
| **Total Building Structure** | | |

| | | |
|---|---|---|
| **Building Gross SF** | | |
| **Estimated Site Size to meet GSF** | | |
| (in acres if known) | | |
| Estimated Cost per acre (if known) | | $ - |
| Estimated Cost of Site (if known) | | $ - |
| **Delineated Area** | | |
| | | |
| **City** | | **State** |
| | | |
| **Parking** | | |
| Parking included in Rent | | ☐ Yes ☐ No |
| Cost per Space | | |
| # of Inside Parking (Basement) | | |
| # of Outside Parking (Structured ) | | |
| # Outside Parking (Surface) | | |
| **Lease Details** | | |
| Common Area Factor | | |
| Estimated Lease or SLA Award Date | | |
| Estimated or Actual Effective Date | | |
| Total Lease Term in Years | | |
| Firm | | |
| Full | | |
| **Rate Description** | | |
| Shell | per RSF | $ - |
| + Operating Rate | per RSF | $ - |
| + T I Rate | per RSF | $ - |
| = Full Service Rental Rate | per RSF | $ - |
| Tax Rate | per RSF | $ - |
| Insurance Rate | per RSF | $ - |

* FY2008 Prospectus threshold for Leasing; updated annually.
For a list of adjusted thresholds, visit Financial Indices

**Notes**

# Part 1a - Preliminary Determination of Operating or Capital Lease Classification

This sheet must be completed by the designated Portfolio Management employee and returned to the Realty Specialist upon receipt o Part 1 - Requirements Development.

| Lease Characteristics | | |
|---|---|---|
| Will requirement be met via a Planned Lease Construction? | ☐ Yes | ☐ No |
| Is the lease Below Prospectus with a term > 5 years and RSF < 10,000? | ☐ Yes | ☐ No |
| Is the lease Below Prospectus with a term > 5 years and RSF > 10,000? | ☐ Yes | ☐ No |
| Is the lease Prospectus level with a term > 5 years and RSF >10,000? | ☐ Yes | ☐ No |
| Is the lease term < 5 years (Below-Prospectus or Prospectus Level)? | ☐ Yes | ☐ No |
| Is the lease term less than 75 percent of the estimated economic life of the asset? | ☐ Yes | ☐ No |
| Is the asset a general purpose asset rather than being for a special purpose of the Government and not built to unique specification of the Government as lessee? | ☐ Yes | ☐ No |
| Is there a private sector market for this asset? | ☐ Yes | ☐ No |
| Will the project be constructed on government-owned land? | ☐ Yes | ☐ No |
| Estimated Cost of Site used in scoring analysis. | $ | - |
| Is the PV of the minimum lease payments less than 90% of the FMV of the asset at the beginning of the lease term? | ☐ Yes<br>☐ No<br>☐ Not required | **Score NPV/FMV**<br>0.00% |
| If no, further discussion required. | | |
| If not required, please explain: | | |

| Site Assumptions | Site Size: | Cost per acre: | Site value: |
|---|---|---|---|

| Portfolio Management Director's (or Designee) Certification | |
|---|---|
| I certify this proposed transaction, per the details and statements provided to me in Part 1 would be treated as an operating lease per instructions provided in OMB Circular A-11, Appendix B. | |
| | |
| Signature of Portfolio Director (or Designee) | Date |

**Notes**

## Part 2 - Offer Details

This sheet must be completed by the Realty Specialist and submitted to the designated Portfolio Management employee for review. (The Realty Specialist must resubmit a Part 1 worksheet if there are any changes to types of space, usf/rsf, term, etc since the Requirements Development Phase and Part 1a was completed by the Portfolio Management employee.

| | | | | | |
|---|---|---|---|---|---|
| 1st highest rated proposal | 2nd highest rated proposal | Parking included in Rent | ☐ Yes | # Inside (Basement) | |
| ☐ Yes | ☐ Yes | | ☐ No | # Outside (Structured ) | |
| ☐ No | ☐ No | Cost per space | $0.00 | # Outside (Surface) | |
| Estimated Lease or SLA Award Date (mm/dd/yyyy) | Estimated or Actual Effective Date (mm/dd/yyyy) | Total Lease Term in Years (Firm/Full plus options) | Stepped Rent | ☐ Yes | ☐ No |
| | | | Year(s) of Stepped Rent | | |
| 00/00/0000 | 00/00/0000 | _____ Firm; _____ Full | Levelized Rent per RSF | | |

**Rate Description**

| | | | | | |
|---|---|---|---|---|---|
| Shell Rent | $ - | per RSF | Tax Rate | $ - | per RSF |
| + Operating Rate | $ - | per RSF | + Insurance Rate | $ - | per RSF |
| + Tenant Improvement Rate | $ - | per RSF | = Tax and Insurance Rate | $ - | per RSF |
| = Full Service Rental Rate | $ - | per RSF | | | |

| **Description of Building** (e.g year built, construction material, historic status, setting) | **Number of stories** |
|---|---|
| | |

**Site Information** (estimated for scoring analysis)

| | | | | | |
|---|---|---|---|---|---|
| Estimated Site Size Required ( in acres if known) | | Estimated Cost of Site if known ** | $ - | per acre if known*** | $ - |

**Unusual Build-out Specific to Client and not Typical to Market**
(e.g. holding cells, non-Interagency Security Committee security countermeasures, floor loading)

**Lease Characteristics**

| | | |
|---|---|---|
| Will the requirement be met via a Planned Lease Construction | ☐ Yes | ☐ No |
| Does the lease agreement call for escalation of the base rent? | ☐ Yes* | ☐ No |
| Has a public-private partnership been established? | ☐ Yes* | ☐ No |
| Does the lease involve a sale-leaseback? | ☐ Yes* | ☐ No |
| Does the ownership of the lease remain with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period? If yes, the lease must be scored regardless of size. | ☐ Yes | ☐ No |
| Does the lease contain a bargain-price purchase option? If yes, the lease must be scored regardless of size. | ☐ Yes | ☐ No |
| Will the project be constructed on government-owned land? | ☐ Yes | ☐ No |
| Considering the lease as a whole and any collateral agreements to be executed by the Government, (e.g. tenant estopple certificates, rent assignment agreements, indemnities) do the risks of ownership stay with the lessor (e.g. casualty loss, guarantee of third-party financing, construction completion risk, date-certain rent start)? | ☐ Yes | ☐ No |

**Realty Specialist's Certification of Accuracy**

I certify the details and statements above have been accurately recorded from the client's program of requirements and offer documents.

| | |
|---|---|
| | 00/00/0000 |
| Signature of Realty Specialist | Date |

* If the answer to this any of these questions is Yes, the Realty Specialist must provide a copy of this determination form to the Financial Operations Division (PFF) and a courtesy copy to the regional CFO.
** Site Cost: If unknown, depending on regional practice, this information may be available through your regional Appraiser, or Office of Portfolio Management.
*** Cost / per acre: If unknown, depending on regional practice, this information may be available through your regional Appraiser, or Office of Portfolio Management

**Notes**

## Part 2a - Final Determination of Operating or Capital Lease Classification

This sheet must be completed by the designated Portfolio Management employee and returned to the Realty Specialist upon receipt of Part 2 - Offer Details, within 3 days of reciept for non-prospectus lease actions, and within 15 of reciept for prospectus level lease actions.

| Lease Characteristics | | |
|---|---|---|
| Will requirement be met via a Planned Lease Construction? | ☐ Yes | ☐ No |
| Is the lease Below Prospectus with a term > 5 years and RSF < 10,000? | ☐ Yes | ☐ No |
| Is the lease Below Prospectus with a term > 5 years and RSF > 10,000? | ☐ Yes | ☐ No |
| Is the lease Prospectus level with a term > 5 years and RSF >10,000? | ☐ Yes | ☐ No |
| Is the lease term < 5 years (Below-Prospectus or Prospectus Level)? | ☐ Yes | ☐ No |
| Does the ownership of the lease remain with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period?<br>If yes, this lease must be scored regardless of size | ☐ Yes | ☐ No |
| Does the lease contain a bargain-price purchase option?<br>If yes, this lease must be scored regardless of size. | ☐ Yes | ☐ No |
| Is the lease term less than 75 percent of the estimated economic life of the asset? | ☐ Yes | ☐ No |
| Is the asset a general purpose asset rather than being for a special purpose of the Government and not built to unique specification of the Government as lessee? | ☐ Yes | ☐ No |
| Is there a private sector market for this asset? | ☐ Yes | ☐ No |
| Will the project be constructed on government-owned land? | ☐ Yes | ☐ No |
| Site Assumptions / Site Size (acres): / Cost per acre | | |
| Estimated Cost of Site used in scoring analysis. | $ | - |
| Is the PV of the minimum lease payments less than 90% of the FMV of the asset at the beginning of the lease term? | ☐ Yes<br>☐ No<br>☐ Not required | **Score NPV/FMV**<br>0.00% |
| If no, further discussion required. | | |
| If not required, please explain: | | |
| Does the lease call for an escalation of the base rent? | ☐ Yes* | ☐ No |
| Has this lease been determined to be a capital lease? | ☐ Yes* | ☐ No |
| Has a public-private partnership been established? | ☐ Yes * | ☐ No |
| Does the lease involve a sale-leaseback? | ☐ Yes * | ☐ No |

| | GCCRG Attached | Look Up Table Attached | Levelized Rent Worksheet Attached | Scoring Analysis Attached | Site Value Calculation Attached |
|---|---|---|---|---|---|
| **Comments** | ☐ Yes ☐ No | ☐ Yes ☐ No | ☐ Yes ☐ No | ☐ Yes ☐ No | ☐ Yes ☐ No |

| Portfolio Management Director's (or Designee) Certification | |
|---|---|
| I certify this proposed transaction, per the details and statements provided to me in Part 1 & 2 (Requirements Development and Offer Details), this lease would be treated as an operating lease per instructions provided in OMB Circular A-11, Appendix B. | |
| | |
| Signature of Portfolio Director (or Designee) | Date |

* If the answer to this any of these questions is Yes, the Realty Specialist must provide a copy of this determination form to the Financial Operations Division (PFF) and a courtesy copy to the regional CFO.

**Notes**

Scoring Worksheet

# Lease Scorekeeping Classification Workbook

## Lease Scorekeeping Classification Workbook

In accordance with the revised guidance issued under the 2008 Scoring RSL, Determination of Operating or Capital Lease Classification for Budget Scorekeeping Purposes, **EVERY *** lease action must be evaluated against the following criteria as found in OMB Circular No. A-11, Appendix B. (* For lease extensions, a Determination of Operating Lease Classification for Lease Extension Memorandum must be completed by the realty contracting officer.)

i. Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period.
ii. The lease does not contain a bargain-price purchase option
iii. The lease does not exceed 75 percent of the estimated economic life of the asset.
iv. The asset is a general-purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government as lessee.
v. There is a private sector market for the asset.
vi. The project should not be constructed on Government-owned land **
vii. There should be no provision of Government financing and no explicit Government guarantee of third party financing.
viii. Risk of ownership of the asset should remain with the lessor unless the Government was at fault for such losses.

** Arrangements entered into using the authorities granted under Section 412 Public Law 108-447, 118 Stat 2809, 3259 & 40 USC 585c must be reviewed by the GSA Office of General Counsel and the Office of Management and Budget.

A **"90 percent" scoring calculation** is **also** required under those lease scenarios and project phases as noted (☑). A value for site must be used in the fair market value (FMV) calculation where indicated. Where noted, a zero value can be used in the calculation.

The **"90 percent " scoring calculation** is the calculation to determine

ix. The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market of the asset at the inception of the lease

| | PROJECT PHASE | | | |
|---|---|---|---|---|
| **LEASE SCENARIOS** | **Requirement Development Phase** | **Prospectus Submittal to CO** | **Apparent Successful Offer** | **Value for Site Required ***** |
| **Planned Build to Suit<br>Term - any<br>RSF - any** | ☑ Evaluate against criteria i-ix | ☑ Evaluate against criteria i-ix **** | ☑ Evaluate against criteria i-ix | ☑ |
| **Below Prospectus Lease<br>Term > 5 years<br>RSF < 10,000** | Evaluate against criteria i-viii | N/A | ☑ Evaluate against criteria i-ix | Use Zero if value not readily available |
| **Below Prospectus Lease<br>Term > 5 years<br>RSF > 10,000** | ☑ Evaluate against criteria i-ix | N/A | ☑ Evaluate against criteria i-ix | ☑ |
| **Below Prospectus Lease<br>Term < 5 years<br>RSF > 0** | Evaluate against criteria i-viii | N/A | Evaluate against criteria i-viii | N/A |
| **Prospectus Level Lease<br>Term < 5 years<br>RSF > 0** | Evaluate against criteria i-viii | Evaluate against criteria i-viii | Evaluate against criteria i-viii | N/A |
| **Prospectus Level Lease<br>Term > 5 years<br>RSF > 10,000** | ☑ Evaluate against criteria i-ix | ☑ Evaluate against criteria i-ix | ☑ Evaluate against criteria i-ix | ☑ |

*** Must include a documented and justifiable value for site.
**** Required if Planned Lease Construction is above the statutory prospectus level.

Date:

Memorandum for The File

From: Contracting Officer

Subject: Lease GS-xxx-xxxxx
Determination of Operating Lease
Classification for Lease Extension

The Government intends to extend the above lease effective [] through []. This memo verifies that the lease for the extension period remains an operating lease as further defined in Appendix B of OMB Circular No. A-11 (2008). A review of the lease project file indicates the following conditions have been met:

1) The base (original) lease now being extended underwent a full Lease Scoring evaluation (in accordance with criteria set forth in Appendix B of OMB Circular No. A-11) and scored as an operating lease, with the lease file containing all required scoring evaluation documentation.

2) The term of the lease extension does not exceed 3 years.

3) The annual rent of the lease extension term either remains unchanged or decreases.

4) All terms of the base (original) lease remain unchanged, and no additional terms are included, either in a prior SLA or as part of the lease extension, that would become applicable during the term of the lease extension, causing the lease to score as a capital lease.

5) This rent to be paid under the extension is below the prospectus threshold applicable at the effective date of the extension.

______________________________________________.

GSA Contracting Officer / Date